BIO RAD LABORATORIES INC
Form 10-Q
May 08, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-7928

BIO-RAD LABORATORIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-1381833
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Alfred Nobel Drive, Hercules, California	94547
(Address of principal executive offices)	(Zip Code)

(510) 724-7000
Registrant's telephone number, including area code

No Change
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes X No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Title of Class	Shares Outstanding at April 30, 2008
Class A Common Stock, Par Value $0.0001 per share	21,932,431
Class B Common Stock, Par Value $0.0001 per share	5,077,248

PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements.

BIO-RAD LABORATORIES, INC.

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net sales	$ 422,197	$ 322,508
Cost of goods sold	195,314	143,127
Gross profit	226,883	179,381
Selling, general and administrative expense	139,655	107,750
Product research and development expense	37,489	32,781
Interest expense	7,957	7,869
Foreign exchange (gains) losses, net	2,593	(272)
Other (income) expense, net	(193)	(6,186)
Income before taxes and minority interests	39,382	37,439
Provision for income taxes	(10,823)	(10,442)
Minority interests in earnings of consolidated subsidiaries	(2,064)	--
Net income	$ 26,495	$ 26,997
Basic earnings per share:		
Net income	$ 0.99	$ 1.02
Weighted average common shares	26,881	26,580
Diluted earnings per share:		
Net income	$ 0.96	$ 0.99
Weighted average common shares	27,464	27,156

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BIO-RAD LABORATORIES, INC

Condensed Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

	March 31, 2008	December 31, 2007
ASSETS:		
Cash and cash equivalents	$ 129,480	$ 161,764
Short-term investments	47,643	61,977
Accounts receivable, net	366,509	358,076
Inventories, net	365,059	321,015
Prepaid expenses, taxes and other current assets	140,340	126,142
Total current assets	1,049,031	1,028,974
Net property, plant and equipment	287,573	271,561
Goodwill	352,671	328,439
Purchased intangibles, net	232,614	210,304
Other assets	131,399	132,316
Total assets	$ 2,053,288	$ 1,971,594
LIABILITIES AND STOCKHOLDERS EQUITY:		
Accounts payable	$ 98,929	$ 96,470
Accrued payroll and employee benefits	96,836	121,255
Notes payable and current maturities of long-term debt	15,677	15,627
Sales, income and other taxes payable	36,832	27,905
Litigation accrual	3,430	5,473
Accrued royalties	37,175	44,069
Other current liabilities	98,567	103,369
Total current liabilities	387,446	414,168
Long-term debt, net of current maturities	442,446	441,805
Deferred tax liabilities	48,773	51,215
Other long-term liabilities	62,107	58,282
Total liabilities	940,772	965,470
Minority interests	30,249	34,434
STOCKHOLDERS EQUITY:		

Preferred stock, $0.0001 par value, 7,500,000 shares authorized;		
none outstanding	--	--
Class A common stock, $0.0001 par value, 80,000,000 shares		
authorized; outstanding 21,920,299 at March 31, 2008 and		
21,877,695 at December 31, 2007	2	2
Class B common stock, $0.0001 par value, 20,000,000 shares		
authorized; outstanding 5,077,778 at March 31, 2008 and		
5,006,400 at December 31, 2007	1	1
Additional paid-in capital	105,996	98,629
Retained earnings	788,562	762,067
Accumulated other comprehensive income:		
Currency translation and other	187,706	110,991
Total stockholders equity	1,082,267	971,690
Total liabilities, minority interests and stockholders equity	$ 2,053,288	$ 1,971,594

The accompanying notes are an integral part of these condensed consolidated financial statements.

BIO-RAD LABORATORIES, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Cash received from customers	$ 436,521	$ 327,214
Cash paid to suppliers and employees	(421,973)	(324,067)
Litigation settlement	(1,098)	(1,033)
Interest paid	(8,938)	(8,540)
Income tax payments	(6,398)	(12,424)
Miscellaneous receipts	1,668	7,987
Excess tax benefits from share-based compensation	(1,959)	(1,778)
Net cash used in operating activities	(2,177)	(12,641)
Cash flows from investing activities:		
Capital expenditures, net	(19,045)	(10,636)
Payments for acquisitions and long-term investments	(17,106)	(860)
Payments on purchase of intangible assets	(675)	(675)
Purchases of marketable securities and investments	(24,872)	(71,930)
Sales of marketable securities and investments	32,779	95,662
Foreign currency economic hedges, net	(6,045)	297
Net cash provided by (used in) investing activities	(34,964)	11,858
Cash flows from financing activities:		
Net borrowings (payments) under line-of-credit arrangements	(668)	1,463
Payments on long-term debt	(2,190)	(123)
Proceeds from issuance of common stock	3,688	4,147
Excess tax benefits from share-based compensation	1,959	1,778
Net cash provided by financing activities	2,789	7,265

Effect of exchange rate changes on cash	2,068	225
Net increase (decrease) in cash and cash equivalents	(32,284)	6,707
Cash and cash equivalents at beginning of period	161,764	223,607
Cash and cash equivalents at end of period	$ 129,480	$ 230,314
Reconciliation of net income to net cash used in operating activities:		
Net income	$ 26,495	$ 26,997
Adjustments to reconcile net income to net cash used in		
operating activities excluding the effects of acquisitions:		
Depreciation and amortization	23,740	14,375
Minority interests	2,064	--
Share-based compensation	1,586	1,266
Excess tax benefits from share-based compensation	(1,959)	(1,778)
Decrease in accounts receivable	11,504	5,134
Increase in inventories	(16,715)	(5,486)
Increase in other current assets	(3,884)	(8,981)
Decrease in accounts payable and other current liabilities	(53,844)	(40,684)
(Decrease) increase in income taxes payable	2,912	(1,562)
Decrease in litigation accrual	(1,098)	(1,033)
Other	7,022	(889)
Net cash used in operating activities	$ (2,177)	$ (12,641)

The accompanying notes are an integral part of these condensed consolidated financial statements.

BIO-RAD LABORATORIES, INC

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION

In this report, Bio-Rad, we, us, and our refer to Bio-Rad Laboratories, Inc. and its subsidiaries. The accompanying unaudited condensed consolidated financial statements of Bio-Rad have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and reflect all adjustments which are, in the opinion of management, necessary to fairly state the results of the interim periods presented. All such adjustments are of a normal recurring nature. Results for the interim period are not necessarily indicative of the results for the entire year. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the best available information. Actual results could differ materially from those estimates. The condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2007.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS 133*. SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires: (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (2) the disclosure of derivative features that are credit risk-related; and (3) cross-referencing within the footnotes. SFAS 161 is effective for us on January 1, 2009. We are in the process of evaluating the new disclosure requirements under SFAS 161.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, as amended in February 2008 by FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FSP FAS 157-2 defers the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. As such, we partially adopted the provisions of SFAS 157 effective January 1, 2008. The partial adoption of this statement did not have a material impact on our financial statements. We expect to adopt the remaining provisions of SFAS 157 beginning in 2009. We do not expect this adoption to have a material impact on our financial statements. See Note 16.

In February 2007, FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115*. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however the amendment to SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale securities. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. We have adopted this statement as of January 1, 2008. The adoption created no impact to our financial statements.

In December 2007, the FASB issued SFAS 141R, *Business Combinations*. SFAS 141R continues to require the purchase method of accounting to be applied to all business combinations, but it significantly changes the accounting for certain aspects of business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We expect SFAS 141R will have an impact on our accounting for future business combinations once adopted but the effect is dependent upon the acquisitions that are made in the future.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the Consolidated Financial Statement and separate from the parent company s equity. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the Consolidated Statement of Operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This statement is effective for us on January 1, 2009. We are still in the process of evaluating the impact that SFAS 160 will have on our Consolidated Financial Statements.

2. ACQUISITIONS

On October 1, 2007, we purchased 85.96% of the outstanding shares of DiaMed Holding AG (DiaMed), a private Swiss company that develops, manufactures and markets a complete line of reagents and instruments used in blood typing and screening. Please see the notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2007 for further disclosure on the acquisition of shares of DiaMed from the majority shareholders and the forthcoming tender offer to minority shareholders.

In March 2008, we acquired an additional 556 shares of DiaMed. This brings our total ownership of the outstanding shares of DiaMed to 89.54%. The owners of the 556 shares received a first payment of approximately $14 million with a second payment to be paid when the tender offer is made to the remaining minority shareholders which is to take place before October 1, 2008. The purchase of these minority interest shares increased the value of our purchased intangibles, goodwill and other current liabilities by approximately $7 million, $7 million, and $6 million respectively. Our liability for minority interests decreased by approximately $6 million.

3. SHORT-TERM INVESTMENTS

These investments are marked to market, with unrealized gains and losses reported as a component of comprehensive income. We review our short-term investments for other-than-temporary losses on a quarterly basis. There were no material other-than-temporary losses for the reported periods.

Short-term investments consist of the following (in millions):

	March 31, 2008	December 31, 2007
Available-for-sale securities:		
Corporate obligations	$ 17.2	$ 10.3
Asset backed securities (including mortgage backed)	25.7	34.5
U.S. agencies	1.2	--
Marketable equity securities	3.5	17.2
Total short-term investments	$ 47.6	$ 62.0

4. INVENTORIES

The principal components of inventories are as follows (in millions):

	March 31, 2008	December 31, 2007
Raw materials	$ 70.0	$ 61.6
Work in process	101.3	88.4
Finished goods	193.8	171.0
	$ 365.1	$ 321.0

5. PROPERTY, PLANT AND EQUIPMENT

The principal components of property, plant and equipment are as follows (in millions):

	March 31, 2008	December 31, 2007
Land and improvements	$ 12.3	$ 11.9
Buildings and leasehold improvements	188.1	181.8
Equipment	449.9	420.6
	650.3	614.3
Accumulated depreciation	(362.7)	(342.7)
Net property, plant and equipment	$ 287.6	$ 271.6

Net capital expenditures include proceeds from the sale of property, plant and equipment of $0.1 million for the three months ended March 31, 2008 and a negligible amount for the three months ended March 31, 2007.

6. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill balances have been included in Corporate for segment reporting purposes in Note 15. Changes to goodwill were as follows (in millions):

	2008	2007
January 1	$ 328.4	$ 119.5
Additional DiaMed share purchase	6.7	--
Updated purchase accounting estimates	(11.9)	
Currency fluctuations	29.5	--
March 31	$ 352.7	$ 119.5

Goodwill related to the DiaMed acquisition remains preliminary as we are still working through the final accounting. In the current quarter, goodwill declined as estimated acquisition liabilities were settled without requiring payment and an increase in work in process inventory was recorded. Goodwill also increased in the quarter due to the additional DiaMed shares purchased in March 2008 (see Note 2).

Other than goodwill, we have no intangible assets with indefinite lives. Information regarding our identifiable purchased intangible assets is as follows (in millions):

	March 31, 2008			
	Average Historical Life (years)	Carrying Amount	Accumulated Amortization	Net
Customer relationships/lists	2-16	$ 82.3	$ 3.5	$ 78.8
Know how	6-10	95.3	13.2	82.1
Developed product technology	5-15	47.3	9.2	38.1
Licenses	1-14	20.9	5.7	15.2
Tradenames	5-15	18.9	1.8	17.1
Covenants not to compete	5	2.4	1.7	0.7
Patents	4	1.0	0.4	0.6
Other	7	0.1	0.1	--
		$ 268.2	$ 35.6	$ 232.6

December 31, 2007

	Average Historical Life (years)	Carrying Amount	Accumulated Amortization	Net
Customer relationships/lists	2-16	$ 71.0	$ 2.0	$ 69.0
Know how	6-10	81.4	9.7	71.7
Developed product technology	5-15	44.3	7.6	36.7
Licenses	1-14	20.4	4.3	16.1
Tradenames	5-15	16.2	0.8	15.4
Covenants not to compete	5	2.4	1.6	0.8
Patents	4	1.0	0.4	0.6
Other	7	0.1	0.1	--
		$ 236.8	$ 26.5	$ 210.3

Recorded purchased intangible asset amortization expense for the three months ended March 31, 2008 and 2007 was $7.5 million and $1.8 million, respectively. Estimated purchased intangible asset amortization expense (based on existing intangible assets) for the years ended December 31, 2009, 2010, 2011, 2012 and 2013 is $24.4 million, $23.7 million, $23.2 million, $21.4 million and $18.7 million, respectively.

7. PRODUCT WARRANTY LIABILITY

Bio-Rad warrants certain equipment against defects in design, materials and workmanship, generally for one year. Upon shipment of that equipment, we establish, as part of cost of goods sold, a provision for the expected cost of such warranty.

Components of the product warranty liability included in other current liabilities and other long-term liabilities are as follows (in millions):

	2008	2007
January 1	$ 15.3	$ 12.9
Provision for warranty	3.9	3.9
Actual warranty costs	(3.0)	(4.2)
March 31	$ 16.2	$ 12.6

8. LONG-TERM DEBT

The principal components of long-term debt are as follows (in millions):

	March 31, 2008	December 31, 2007
7.5% Senior Subordinated Notes	$ 225.0	$ 225.0
6.125% Senior Subordinated Notes	200.0	200.0
Other debt	0.4	0.4
Capitalized leases	28.6	27.4
	454.0	452.8

Less current maturities	(11.6)	(11.0)
Long-term debt	$ 442.4	